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INTRODUCTION

The Office of Internal Audit performed an audit of Zone 1 office including the Regional Accounting Unit DHS for the period October 1, 2004 through October 28, 2005. The objectives of our audit were to determine if internal controls in place at the Regional Accounting Unit provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Department of Human Services (DHS) are being followed. The Zone 1 office had 17 full time equated positions (FTE's), including 4 that were assigned to the Regional Accounting unit at the time of our review.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Zone 1 office and Regional Accounting Unit and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Cash Receipts	Cash Disbursements
Safe and Controlled Documents	Procurement Cards
CIMS/ASSIST/LASR	Payroll and Timekeeping
General Ledger	Modified Accrual Basis Balance Sheet

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Zone 1 office and Regional Accounting Unit internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with DHS policies and procedures and weaknesses in internal controls, which are detailed below.

ZONE OFFICE RESPONSE

The management of the Zone 1 Office has reviewed all findings and recommendations included in this report. They indicated in an e-mail dated December 1, 2005 that they are in general agreement with the report and have implemented corrective action for all items.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

Mail Opening

1. The Zone 1 Office had one employee pick the mail up from the mail box in an open container. Accounting Manual Item 431 states that two people should pick up the mail unless it is transported in a locked bag. Having two employees pick up the mail helps to ensure that all items received are recorded.

WE RECOMMEND that the Zone 1 Office have two people pick the mail up from the mail box.

Note: Corrective action taken while the auditor was on site.

Improper Separation of Duties

2. The Zone 1 Office did not properly separate the mail opening duties from the fiscal duties. The same employees who opened the accounting unit's mail also performed the cash receipts and disbursements functions. For internal control purposes the duties of mail opening and fiscal duties should be separated to ensure that all items received are appropriately processed.

WE RECOMMEND that the Zone 1 Office separate the mail opening duties from the fiscal duties.

Note: Corrective Action was taken while the auditors were on site. The Zone 1 administrative support staff now open the mail, and forward the negotiables to the fiscal unit.

CIMS/ASSIST/LASR Security

Back up Tapes

3. The Zone 1 Office did not retain back up tapes for its Novell server in a secure location or off site. The back up tapes were stored in a lateral file in the zone office. According to the Primary Internal Control Criteria for Local/District Office Operations the back up tapes are to be kept on site in a fire proof safe, and a copy also retained off site. Maintaining back up tapes in secure and off site locations helps to ensure that records could be recreated, if necessary.

WE RECOMMEND that the Zone 1 office store its backup tapes in a secure location and store a copy in an off-site location.

Security Officers Log Report (VB9-173), (VB9-163), and (LR-853)

4. The Zone 1 Office did not properly reconcile the ASSIST and LASR Security Officer's Log Reports. Delta County DHS maintained and performed the security function for the Zone 1 Office for CIMS and ASSIST. The Regional Accounting Unit maintained the LASR agreements. The security coordinator at Delta County DHS was receiving the ASSIST Security Officer's Log Report (VB9-173), and then forwarding it to the Security Officer. In addition, the Security Coordinator was receiving the Violation Report (VB-163), and not forwarding it to the Security

Officer. Also, the Security Officer was not reconciling the reports to the updated Security Agreements/Enrollment Profiles, but was reconciling them to a log maintained by the Security Coordinator, which was not kept up to date. The Primary Internal Control Criteria for DHS Local/District Offices recommends that the Security Officer receive these reports directly for reconciliation purposes.

In addition, the Zone 1 Office did not have a LASR Security Officer. Therefore, no one reconciled the Security Officer's Log Report (LR-853) to the Local Accounting System Replacement (LASR) Access Security Request (DHS-84). The Primary Internal Control Criteria for Local/District Office Operations recommends that an independent person reconcile these reports to ensure that all changes made are accurate and approved by supervision.

WE RECOMMEND that the Zone 1 Office appoint a LASR Security Officer and ensure that the ASSIST and LASR security reports are appropriately distributed and reconciled.

Note: Corrective action taken while the auditor was on site. The fiscal supervisor prepared a revised DHS-84 to include security officer duties.

LASR Security Agreements

5. Regional Accounting did not have accurate, up to date Security Agreements on file for all employees listed on the User Responsibility Listing (LR-890). Each local office in the zone had one or more employees with LASR access who were included on the Regional Accounting LR-890. Regional Accounting did not have Security Agreements (DHS-84) on file for these employees. In addition, most of these employees had access to transactions not necessary to perform their job

function. Most did not need access beyond Inquiry. Also, two employees in the Regional Accounting Unit had Security Officer status in LASR. Both of these employees also had access that allowed them to input transactions in LASR.

WE RECOMMEND that Regional Accounting obtain accurate, up-to-date Security Agreements for all employees included on their User Responsibility Listing and delete transactions for employees who have access not needed or inappropriate for their positions.

Cash Disbursements

Signature Card at the Bank

6. The Regional Accounting Unit did not have the current Zone Manager's name on the signature card on file at the bank as authorized to sign checks. For internal control purposes the authorized check signer should have a current signature card on file at the bank.

WE RECOMMEND that the Regional Accounting Unit remove the previous director's name and prepare a new signature card with the zone1 manager's name as the authorized check signer.

Note: Corrective action taken while the auditor was on site.

Documentation for Payments

7. The Regional Accounting Unit processed approximately 8,300 payments during the period of our review. They did not have all required payment documentation attached to the check copy for 10 of the 57 transactions we reviewed. We noted that 5 payments were made from a fax copy, one had no invoice attached, two

documents were not stamped “PAID,” and one document did not show the amount needed to stop a foreclosure. In addition, one check was issued to a relative instead of a provider, and the invoice for one of the items included in that payment did not have a business name printed on the invoice. The invoice was a blank invoice form that could be purchased by anyone in an office supply store. The Accounting Manual Items related to each payment type indicate the necessary documentation required to support a payment.

WE RECOMMEND that the Regional Accounting Unit ensure that appropriate original supporting documentation is attached to all check copies to support payments made.

General Ledger

Outstanding Checks

8. The Regional Accounting Unit had 10 checks on the outstanding checklist that were over six months old. Accounting Manual Item 405 states that checks over 6 months old are to be voided and the bank balance adjusted.

WE RECOMMEND that Regional Accounting Unit void stale dated checks and adjust the bank balance according to the accounting manual

Note: Corrective action taken while the auditor was on site.

Bank Reconciliation not Prepared Timely

9. The Regional Accounting Unit did not perform the Bank Reconciliation timely. The Bank Reconciliation was last prepared for the month of June 2005.

Accounting Manual Item 405 states that the bank account must be reconciled monthly by the end of the month following the statement month.

WE RECOMMEND that Regional Accounting Unit reconcile the bank account in accordance with the Accounting Manual.

Note: Corrective action taken while the auditors were on site.

Modified Accrual Basis Balance Sheet

Accounts Receivable Due from State

10. The Regional Accounting Unit did not reconcile the Accounts Receivable Due from State Accounts (078) listed on the Balance Sheet for the Guardianship (20) and the State Administrative (036). Accounting Manual Item 402-3 requires a monthly reconciliation of accounts receivable due from State to be performed by comparing the General Ledger balance for each 078 account to the total of the documents in the respective Outstanding Accounts Receivable file. Reconciling the Due from State account to the detail ensures that the account balances are correct and all transactions are accounted for.

WE RECOMMEND that the Regional Accounting Unit reconcile the 020 and 036 account detail to the general ledger as required by the Accounting Manual.

Safe and Controlled Documents

Controlled Document Log

11. The Regional Accounting Unit did not prepare the Controlled Document Log (DHS-4070) for the Blank Voucher Checks or the Purchase Orders. Accounting

Manual Item 403 states that local offices must maintain a DHS-4070 for each controlled document type.

WE RECOMMEND that Regional Accounting Unit maintain the DHS-4070 for the Checks and Purchase Orders.

Physical Inventory of Controlled Documents

12. The Regional Accounting Unit had not prepared the Monthly Physical Inventory and Reconciliation of Controlled Documents (FIA-4351) since June 2005 for the Checks, Cash Receipts, and Purchase Orders. Accounting Manual Item 403 requires that a Monthly Physical Inventory and Reconciliation of Controlled Documents (FIA-4351) be prepared each month. Inventory and reconciliation of the controlled items reduces the risk of improper use.

WE RECOMMEND that the Regional Accounting Unit prepare the FIA-4351 for all controlled documents on a monthly basis.

Procurement Card

Reconciliation of the Transaction Detail Report

13. The Zone 1 Office Director approved the Transaction Detail Report before reviewing the Procurement Card Log and invoices. Reconciling the purchases listed on the Procurement Card Log to the Transaction Detail Report will ensure that items purchased were authorized, recorded on the report, and appropriately accounted for as required by to the Procurement Card policy and procedures.

WE RECOMMEND that the Regional Accounting Unit review the procurement card log and invoices before approving the Transaction Detail Report.

Payroll and Timekeeping

Independent File for the Certified HR-332A Report

14. The Zone 1 Office timekeeper maintained the timesheets and HR-332A reports. The Primary Internal Control Criteria for Local/District Office Operations recommends that the district office retain the HR-332A report in a file independent of the timekeeper, until the turnaround reconciliation has been completed. Maintaining the HR-332A independent of the timekeeper helps to ensure that any changes made after the certifier signs the HR-332A report would be detected.

WE RECOMMEND that the Zone 1 Office maintain the HR-332A report in a file independent of the timekeeper until the payroll is reconciled a week after the payroll is prepared.

Time Released Prior to Certification

15. The Zone 1 Office timekeeper released the time to DC/DS prior to the time being reviewed and certified when the Director was not available. Primary Internal Control Criteria for Local Offices indicates the time is to be reviewed and certified before it is released to DC/DS. The Zone 1 Office did not have a back up certifier to review the time sheets and certify the time in the Director's absence.

WE RECOMMEND that the Zone 1 Office designate a backup certifier and ensure that the timekeeper does not release the time until after it has been reviewed and certified.

Note: Corrective action taken while the auditor was on site.

Reconciliation of HR-332A to the Turnaround HR-332A

16. The Zone 1 Office did not have an independent person reconcile the turnaround HR-332A to the original HR-332A report a week after the time was submitted. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper reconcile the turnaround HR-332A report to attest to the accuracy of the payroll.

WE RECOMMEND that the Zone 1 Office have someone other than the timekeeper reconcile the original HR-332A report to the turnaround HR-332A report to verify the accuracy of the payroll.